

Executive Brief

8 Steps to Immediately Reduce Workforce Costs

Steven T. Hunt, Ph.D. & Bob Phillips

Current economic conditions are forcing many companies to significantly reduce workforce operating costs. While reducing workforce costs is often necessary to keep companies financially solvent during difficult times, if done poorly it is just as likely to exacerbate an already difficult situation. This Executive Brief outlines 8 steps to quickly and effectively reduce workforce costs, while minimizing the negative impact on your business.

Downsizing is never easy, but if done effectively it will allow your company to survive a down economy. Here are 8 steps that will help you make effective, efficient decisions to immediately reduce workforce costs:

1. Cut spending first before headcount.

Companies that reduce discretionary spending first — thus minimizing headcount reductions — tend to significantly outperform their competitors over time. Downsizing your core, productive workforce is like cutting into the “muscle” that runs your company. It may be necessary to survive lean economic times, but it will impact and probably decrease the performance of your company for a considerable period of time. Workforce reductions tend to be difficult and expensive, and frequently do long-term damage to a company’s culture, knowledge base, and morale. They are best viewed as the last resort for reducing costs, not the first. Instead, ask employees if they will make temporary concessions — like time off accrual policy reductions, unpaid leave, salary reductions, and shortened work schedules — rather than undergo layoffs. A cost cutting survey is an effective mechanism for identifying costs that can be eliminated and aligning the company behind these cost cutting efforts. Make it clear that the cuts are being made so the company can avoid having to make staff cuts. But do not promise that workforce reductions will not be necessary.

2. Upgrade and optimize the workforce, don’t just reduce it.

Work with your line of business managers and talent management professionals to prioritize jobs, departments, and operating units based on their impact on company revenue. Rank these based on the value they provide to the company, the cost required to maintain them, and the ability to maintain these functions with fewer staff. Explore shutting down entire programs that aren’t critical to short term revenue.

After you determine which areas of the organization have the biggest impact on driving company revenue and controlling costs, review the capabilities of your employees to determine if they are optimally deployed to support these critical elements of your business. You may find it makes sense to actually increase staffing levels in more profitable departments while radically decreasing headcount in others. Require every manager to indicate how they would reduce headcount in their area if they are required to do so — and to force rank their employees using criteria set at the company level, not at the manager level. At the same time, guard against requirements that all departments reduce their workforce by the same percentage. This is neither fair nor effective. All departments do not contribute equally to revenue. Some will be required to make greater reductions than others.

Finally, plan how you will re-organize work after the workforce reduction. It is foolish to assume you can continue to operate exactly as before with significantly less staff. If that were possible, you would not have hired as many people to begin with. Nor can you simply ask the remaining people to “work harder”. This will increase burnout levels and decrease work quality, and may cause the high performing people you need most in a financial crisis to seek work in another company that has more realistic expectations about workloads.

3. It is better to over-cut once than under-cut multiple times.

Your goal during a downsizing is to get through the reductions as rapidly as possible and re-establish the company on stable financial footing. This is not the time to have employees distracted from achieving their job goals by questions such as “are more cuts coming?” or “am I going to survive the next round of downsizing?” Make the cuts quickly, efficiently, effectively and fairly, and then move on.

A common mistake is to base initial headcount reductions on overly optimistic market predictions. Companies who do so find themselves having to make additional rounds of reductions which further increase already high levels of stress and anxiety among employees. It is better to use a conservative forecast - some would even argue a pessimistic forecast - in order to cut once deeply and move on, rather than risking making multiple, inadequate reductions that slowly drain company morale and enthusiasm and eventually lead to a “death of a thousand cuts”.

4. Make reduction decisions on clear, consistent and transparent criteria.

The history of downsizing is filled with stories of companies that fired employees only to realize that the employees were critical to company operations after they had been given severance. Companies have re-hired downsized employees days or weeks after they have been dismissed. These re-hires frequently demand much higher salaries and are likely to have much lower organizational commitment.

Decisions about which employees to let go should be based on data and processes that are at least as rigorous as the methods used to hire the employees in the first place. Workforce cuts should start with a thorough review of the company’s current operations and future business direction. You cannot start cutting until you clearly understand how each employee’s skills and expertise will support the company’s future business model and strategy. Once you determine the number and type of employees needed to support the business going forward, you should begin making workforce reductions based on the following three criteria:

- **Employee Capabilities & Skills.** Firing people without assessing their skills is like breaking down walls in a building without checking to see if they contain beams that are holding up the roof. Downsizing decisions should begin with a clear evaluation of the skills possessed by each employee, the role these skills play relative to business operations, whether the skills are limited to a small number of employees, and whether these skills can be easily replaced if this employee is let go. Crucial operating knowledge in many organizations is maintained in an employee's head – not on a computer or sheet of paper. Take care to ensure you have processes in place to ensure effective knowledge transfer prior to cutting employees who possess crucial organizational information.
- **Employee Performance & Productivity.** You want to keep the highest performing employees who have demonstrated a strong commitment to the success of the organization. Emphasize the retention of employees who have a team orientation and who are likely to meet future challenges with enthusiasm and flexibility. Things are likely to get harder before they get easier – make sure the employees you keep are the ones you want to have on your team during these tough times.
- **Employee Cost.** If certain employees cost more due to their location, salary, or other factors, they should be expected to contribute more than other employees who cost less. It may be better to lay off a small number of highly paid workers instead of large number of less expensive employees.

Use structured assessment tools and techniques to rank and categorize employees according to the criteria listed above. Take advantage of tools specifically designed to ensure fair and accurate evaluation of employees such as nine box grids, behavioral anchored rating scales, balanced scorecards, and other talent assessment techniques.

Workforce cuts should be based on a clear understanding of how each employee's skills and expertise will support the company's future business model and strategy.

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| | Marcus Hoff | Richard Moore | Sid Morrison | Wilma Simon | Yik Stokes |
|--------------------|-------------|---------------|--------------|-------------|-------------|
| Communication | 1 | 2 | 3 | 4 | 5 |
| Customer Focus | 1 | 2 | 3 | 4 | 5 |
| Hiring | 1 | 2 | 3 | 4 | 5 |
| Integrity/Ethics | 1 | 2 | 3 | 4 | 5 |
| Job Knowledge | 1 | 2 | 3 | 4 | 5 |
| Listening Skills | 1 | 2 | 3 | 4 | 5 |
| Negotiation Skills | 1 | 2 | 3 | 4 | 5 |
| Sense of Urgency | 1 | 2 | 3 | 4 | 5 |
| Teamwork | 1 | 2 | 3 | 4 | 5 |
| Summary | 3.00 | 3.75 | 3.17 | 3.25 | 2.75 |

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Stack Ranker Summary

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|---|---------------|------|
| 1 | Richard Moore | 3.75 |
| 2 | Wilma Simon | 3.25 |
| 3 | Sid Morrison | 3.17 |
| 4 | Marcus Hoff | 3.00 |
| 5 | Yik Stokes | 2.75 |

Beyond the obvious business impact of downsizing, your company will also be affected by how people judge the processes you use to determine who to let go. It will color the relationship of the remaining employees with the company. It will also be central to whether former employees choose to pursue legal action against your company based on discriminatory termination practices, and whether they win these actions in court. When making decisions about headcount reductions, work closely with your human resources department to ensure you are not at risk of violating any laws or existing contracts. Carefully manage headcount reductions that may disproportionately impact older workers, or workers from certain demographic groups. There are many other local and national legal requirements associated with layoffs that must be attended to. Legal requirements can become extremely complicated when headcount reductions are conducted across multiple geographies.

5. Treat people right.

The trust and loyalty of the employees that survive a downsizing is based largely on how the company treated those who lost their jobs in the process. If you let people go with little warning, inadequate explanation, and little to no financial support, survivors will begin thinking “wow, I don’t want that to happen to me”. If this happens, then your best performers - usually the ones with the most alternative job opportunities - will begin looking around for other organizations that they feel provide a more stable, safer place of employment. Severance is not an investment in the people you let go. Severance is an investment in the trust and loyalty of the people you keep.

6. Communicate the new vision.

The biggest risk to workforce productivity after a headcount reduction is not fear or lowered morale, it is uncertainty. Be clear about why decisions were made to reduce the workforce, what actions were taken prior to making these decisions, how the decisions were carried out, and future plans going forward. Encourage employees to voice concerns and suggestions about the company’s financial situation and strategic direction and then leverage their ideas. The more you trust employees with the full picture of the company’s financial situation, the more they will feel empowered to help the company meet these challenges. Do not leave employees guessing about why things happened and what will happen in the future. Tell them, listen to how they react, and then talk to them again.

Last, make sure your management team is out among employees communicating the vision of the company and inspiring them to stick with the organization. This requires painting a picture of what the company will look like when it emerges from its current financial situation, and letting employees know what career opportunities exist for them over the short and long-term.

7. Succession planning.

Workforce reductions involve getting rid of people, but often much of the work these people were doing will remain. Think about who will be responsible for handling this work after employees leave. Define transition and succession plans to ensure minimal disruption of critical organizational functions following the reduction.

8. Learn from the experience.

Business downturns are inevitable. The majority of companies that have been in existence for more than 25 years have had to make workforce reductions more than once in their history. While some companies have avoided workforce reductions, they are few and far between. So recognize that you may have to go through this again. But seek to learn from your experience so that:

- a) Your company makes sound decisions that allow you to weather future economic downturns without the need to trim your workforce
- b) Subsequent workforce reductions, if required, are done more effectively the next time

Authors

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